

Interior received, for the 13th consecutive year, an unqualified audit opinion on its financial statements. The statements were audited by the independent accounting firm of KPMG LLP.

Preparing the financial statements is part of Interior's goal to improve financial management and to provide accurate and reliable information that is useful for assessing financial performance and allocating resources. Interior management is responsible for the integrity and objectivity of the financial information presented on the financial statements.

The financial statements and financial data presented in the Agency Financial Report (AFR) have been prepared from Interior's accounting records in conformity with generally accepted accounting principles. Generally Accepted Accounting Principles (GAAP) for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board. Effective October 1, 2008, Statement of Federal Financial Accounting Standard (SFFAS) 31, *Accounting for Fiduciary Activities*, requires federal entities to disclose fiduciary activities in a note instead of reporting on the financial statements. In accordance with this standard, Interior did not recognize fiduciary activities on the FY 2009 financial statements and instead disclosed fiduciary activities in Note 22. This standard does not require prior period restatement.

Information provided on the financial statements, the opinion presented as a result of the independent audit, and other disclosures and information provided in the AFR provide assurance to the public that the information is accurate, reliable, and useful for decisionmaking.

Interior expects that balances of line items will fluctuate in the normal course of business. Therefore, while Interior notes these variances, any fluctuations of 10 percent or less are considered normal and will not be detailed specifically in this analysis, unless the amount of the changes are deemed significant by Interior.

Overview of Financial Position

At the end of FY 2009, Interior's assets totaled \$76,920 million. This is an increase of \$6,241 million or 9 percent over the previous year's assets, which totaled \$70,679 million. Interior's assets reflected in the Balance Sheet are summarized below.

Interior's assets are primarily composed of the Fund Balance with Treasury and General Property, Plant, and Equipment (PP&E). The Fund Balance with Treasury is money that Interior is authorized to use to pay liabilities resulting from operational activity and consists of funds received from direct appropriations, transfers, offsetting receipts, recoveries, and funds held in budget clearing accounts.

General PP&E are primarily composed of land, structures, and facilities which are used for general operations, power, wildlife enhancement, and recreation. Most of Interior's structures and facilities are composed of dams, power, and irrigation facilities managed by BOR. The remainder consists of buildings and facilities used in Interior's operations (e.g., visitor centers, fish hatcheries, and IA schools).

In FY 2009, Interior's Fund Balance with Treasury increased approximately \$3,796 million. \$3,005 million of this increase is due to the funds that Interior received under the American Recovery and Reinvestment Act of 2009. Accounts and Interest Receivable (Net) increased for the year by approximately \$1,919 million (58 percent). This increase is mainly due to the Minerals Management Service recording a \$2,150 million receivable from Treasury for refunds due to the public as a result of the loss of the Kerr-McGee case. This increase is offset with the corresponding refunds payable.

Condensed Assets

<i>(dollars in thousands)</i>	FY 2009	FY 2008
Fund Balance with Treasury	\$ 41,728,717	\$ 37,932,964
Investments, Net	7,052,173	7,546,611
General Property, Plant, and Equipment, Net	18,989,791	18,306,908
Accounts and Interest Receivable, Net	5,203,301	3,284,138
Other Assets	3,945,807	3,608,646
Total Assets	\$ 76,919,789	\$ 70,679,267

Liabilities

In FY 2009, Interior's liabilities totaled \$12,357 million. This is an increase of \$529 million or 4 percent increase from previous year's liabilities of \$11,828 million. Interior's liabilities reflected in the Balance Sheet are summarized below.

Interior's liabilities are primarily composed of Accounts Payable, Debt, Federal Employee and Veteran Benefits, and Other Liabilities. Other Liabilities are primarily composed of Liability for Capital Transfer to the General Fund of the Treasury, Refunds Payable, Contingent, Advances, Deferred Revenues, and Custodial Liabilities.

Federal agencies, by law, cannot disburse money unless Congress has appropriated funds. Funded liabilities are expected to be paid from funds currently available to the Department. Interior's unfunded liabilities consist primarily of Environmental and Legal Contingent Liabilities and unfunded employee compensation costs, which include Federal Employment and Compensation Act and annual leave amounts.

These liabilities will be paid from funds made available to Interior in future years. The associated expense is recognized in the period in which the liability is incurred, regardless of budgetary funding considerations.

In FY 2009, the Loan Guarantee Liability increased for the year by \$15 million (40 percent) due to an increase in Indian Affairs' direct loan and loan guarantee subsidies under the Federal Credit Reform Act.

The Other Liabilities line item, as presented in this summary statement, is a composite of all remaining liabilities in the Department. The large increase of approximately \$578 million (7 percent) is, therefore, a result of many smaller changes. Mainly, the change is due to the increase in refunds payable of about \$2 billion from the loss of the Kerr-McGee case, and a decrease of approximately \$1 billion in Contingent Liability due to payments made for settlement of the Amber case.

Condensed Liabilities

<i>(dollars in thousands)</i>	FY 2009	FY 2008
Accounts Payable	\$ 1,569,389	\$ 1,571,833
Debt	643,272	715,109
Loan Guarantee Liability	50,779	36,180
Federal Employee and Veteran Benefits	1,394,446	1,383,223
Environmental and Disposal Liabilities	155,684	155,548
Other Liabilities	8,543,399	7,965,752
Total Liabilities	\$ 12,356,969	\$ 11,827,645

Net Position

Interior's Net Position at the end of 2009, disclosed in the Balance Sheet and the Statement of Changes in Net Position, was \$64,563 million, an increase of about \$5,711 million or 10 percent from the previous year's Net Position of \$58,852 million. Approximately \$3,005 million of this increase is due to the funds received under the American Recovery and Reinvestment Act.

Interior's Net Position consists of the sum of Unexpended Appropriations of \$6,885 million and Cumulative Results of Operations of \$57,677 million.

Net Cost

Interior's net cost of operations for FY 2009 was \$15,092 million. This is a decrease of \$1,154 million or 7 percent from the previous year's net cost of \$16,246 million. Interior's net cost of operations as reflected in the Statement of Net Cost is summarized below.

Most costs incurred by Interior are directly related to providing services to the public. The Consolidated Statement of Net Cost is divided into the following five major program segments: Resource Protection; Resource Use; Recreation; Serving Communities; and, Reimbursable Activity and Other.

Condensed Net Cost

<i>(dollars in thousands)</i>	FY 2009	FY 2008
Resource Protection	\$ 3,989,715	\$ 3,780,366
Resource Use	2,390,705	3,973,630
Recreation	2,865,264	2,632,479
Serving Communities	4,892,334	4,777,813
Reimbursable Activity and Other	953,799	1,081,461
Net Cost of Operations	\$ 15,091,817	\$ 16,245,749

Revenue

During FY 2009, Interior earned approximately \$2,239 million in revenue from the public and approximately \$2,188 million in revenue from other Federal entities, for a total of \$4,427 million. This is an increase of approximately \$97 million from September 30, 2008. In FY 2008, approximately \$2,134 million was earned in revenue from the public and approximately \$2,196 million was earned in revenue from other Federal entities, for a total of \$4,330 million.

Interior classifies revenue as exchange or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the Government and the other party receive value, including park and wildlife refuge entrance fees, map sales, and other products and services that are directly related to Departmental operations. Revenue collected from other Federal agencies consists of reimbursable activities such as construction, engineering, and other technical services. Most of the revenue received from Federal agencies is received from Interior Franchise Fund and National Business Center operations that provide shared administrative services. Interior also collects mineral lease revenues on behalf of the Federal government; these are presented in the Statement of Custodial Activity rather than the Statement of Net Cost.

Interior also collects various non-exchange revenues. Examples of non-exchange revenue are taxes, fines, and penalties that the Federal government collects.

Budgetary Resources

Interior receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for Interior's use by the Congress. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections, as well as other sources of budgetary resources.

Other resources include Special and Trust Funds, such as Conservation Funds (the Land and Water Conservation Fund, Historic Preservation Fund, and the Environmental Improvement and Restoration Fund), the Reclamation Fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

The Statement of Budgetary Resources provides information on how budgetary resources and non-budgetary credit program financing were made available to Interior for the year and the status at fiscal year-end. Obligations of \$22,568 million and \$21,920 million were incurred as of September 30, 2009, and September 30, 2008, respectively on total budgetary resources in FY 2009 of \$32,272 million, and in FY 2008, of \$29,044 million.

Custodial Activity

In accordance with Federal accounting standards, receipts from mineral leasing revenue are presented in Interior's Statement of Custodial Activity, since the collections are considered to be revenue of the Federal Government as a whole rather than Interior. Mineral leasing revenue was \$9,320 million and \$25,371 million as of September 30, 2009, and September 30, 2008, respectively, and includes Outer Continental Shelf and onshore oil, gas, and mineral sales and royalties. The decrease of \$16,051 million is due to the significant decreases in commodity prices and onshore and offshore mineral lease bonuses and the cessation of the large Strategic Petroleum Reserve (SPR) fill initiative in FY 2009.

Interior collects a portion of revenue as royalties in kind for transfer to the SPR. The current SPR initiative began in July 2007 and was discontinued in June 2008. The current estimated value of this initiative is \$269 million which was reported as custodial revenue.

Stewardship Investments

Stewardship investments represent expenses incurred to support the current operations that are expected to benefit the Nation over time. Interior's Stewardship Investments include research and development programs, investments in human capital, and investments in nonfederal physical property.

Stewardship Investments are summarized in the following table.

Stewardship Investments (in millions)				
	FY 2009	FY 2008	Change	% Change
Non-Federal Physical Property	\$623	\$667	\$-44	-7%
Research and Development	\$901	\$885	\$+16	+2%
Human Capital	\$615	\$589	\$+26	+4%

Interior's reported values for Property, Plant, and Equipment exclude stewardship assets because they are considered priceless and do not have an identifiable value. Therefore, monetary amounts cannot be assigned. An in-depth discussion of these assets is presented in the Notes to the Financial Statements section and the Required Supplementary Information section of the AFR.

Limitations of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for Interior pursuant to the requirements of Chapter 31 of the U.S.C. Section 3515(b).

While these statements have been prepared from the records of the Department in accordance with GAAP and formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.